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SIPDIS

SENSITIVE

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SUBJECT: TURKEY'S ELECTRICITY EXPORTS TO IRAQ - REGULATORY CHALLENGES

REF: A. ANKARA 3528

[B](#). ANKARA 3263

[C](#). ANKARA 1003

[D](#). 04 ANKARA 6195

SENSITIVE BUT UNCLASSIFIED

[1](#)1. (SBU) SUMMARY: The U.S., Turkish, and Iraqi Governments share the goal of increasing exports from Turkey to Iraq. Turkey's Kartet Company currently exports 200 MW and seeks to increase in two steps: 1) to 350 MW, generally using existing capacity, and 2) to 1200 MW, asserting that it has the sole contract with the ITG MOE to put this in place with new investment. Embassy has played a facilitating role in assisting Kartet to overcome numerous obstacles. At the same time, we need to be sensitive to energy regulator EMRA's independence as Turkey aims to liberalize and improve its investment environment, in line with its economic reform program. EMRA is willing to license Kartet's first proposed increase, but argues for a competitive tender for allocation of Turkey's transmission capacity for the larger proposed increase. Such a tender would ensure a level playing field among companies given the interest of a number of reputable Turkish firms. Kartet may not be the sole solution to the Iraq electricity challenge. End Summary.

Let's Make the Deal Happen

[1](#)2. (SBU) From the original idea in 2003 to date, the GOT MENR (Ministry of Energy) has strongly supported Kartet Company's (Karadeniz Toptan Elektrik Ticaret A.S.) project to export electricity to Northern Iraq (Reftels). The need to increase exports from the current 200 MW has been reaffirmed by the Turkish and Iraqi Governments. An MFA contact told EnergyOff that the MFA has strongly supported the increase for strategic reasons. Embassy has closely followed the issue, particularly since there was a temporary stoppage last October (Ref D), because the contractual heavy fuel oil (in partial payment) from Iraq had never been delivered from Iraq (due to security and financial problems). Kartet has scrambled to acquire (more expensive) fuel oil from Turkish refineries and electricity from the Turkish grid. Embassy has heard claims in the press and in the industry, that Kartet may have engaged in a "special deal" with MENR. The Energy Regulatory Authority (EMRA), itself engaged in a bureaucratic turf battle with the GOT to maintain its independence, has claimed that Kartet had illegally acquired electricity from the grid. In March 2005, GOT and EMRA passed legislation and implemented regulation meant to clarify and facilitate exports of electricity.

[1](#)3. (SBU) Kartet's Orhan Karadeniz told EnergyOff on July 19 that in his view EMRA was the biggest obstacle to increasing exports. He said that for the first time Kartet had been able to acquire some fuel oil in Iraq (6,000 tons, versus the contractual 30,000 tons/month). Karadeniz was also optimistic that the issue of a bank guarantee for the first year of the take or pay contract from Iraq would be solvable (Kartet's condition for putting in place incremental investment for the larger deal, potentially including the Iraq portion). He thanked Embassy for facilitating contact with U.S. OPIC and EXIM; he was optimistic about OPIC, but noted that EXIM only provided 180-day credit for Iraq. Acquisition of fuel oil in Iraq (related to security and administrative issues within Iraq), keeping the ITG MOE focused on implementing the contract, and financing of investment in Iraq remain obstacles to increasing exports. In a conversation July 26 with econ specialist, Karadeniz reported that the Iraqis had started repair and maintenance on their side of the border, improving the prospects for more transmission. Both Karadeniz and other industry observers are skeptical about electricity from Iran or from Russia (via Georgia) given technical and EU directive constraints (Turkey is close to joining the European synchronized UCTE grid), but he thought these schemes could be distractions. President Putin reportedly raised the idea of Russian electricity exports to Iraq via Turkey in his recent meeting with PM

Erdogan. Karadeniz reminded EnergyOff that Kartet's proposal for the smaller increase included transmitting some electricity from Turkey to Iraq via Syria.

We Can't Play Favorites

14. (SBU) EMRA Electricity Market Head Murat Erenel confirmed to EnergyOff on July 21 that EMRA was facing pressure from the GOT to move forward on renewing Kartet's license for electricity export to Iraq. Erenel explained that the EMRA Board had indeed made a favorable preliminary ruling on renewing Kartet's license in an increased amount to 350 MW, despite Sabanci and other Turkish firms expressing an interest (Ref B). In implementing the license, EMRA had received a positive, but slightly ambiguous opinion on transmission capacity availability from the Turkish transmission company (TEIAS). He said that EMRA's final board approval on implementing the license awaited a legal opinion on Kartet's contract with the ITG. Meanwhile, press reported July 26--and Karadeniz confirmed--that Kartet sued EMRA in June because of the slowness of the regulatory approval, a fact that neither side had mentioned to energyoff only last week. But Karadeniz said he is still talking with EMRA and is hopeful it will authorize the additional capacity soon, at which point Kartet will withdraw the suit.

15. (SBU) With respect to the requested larger increase to 1200 MW, he said that EMRA's position was quite clear given interest by about 15 Turkish companies, including major domestic companies like Sabanci, Koc, Ak Enerji, and Zorlu. Erenel stated that, as envisioned by existing legislation, regulation and the GOT/EBRD Electric Strategy Paper, TEIAS as market operator should allocate by competitive auction third party access to transmission capacity. In response to EnergyOff's inquiry on timing given the need for quick implementation, Erenel stated that TEIAS would focus first on an allocation for Iraq export and it would take it two months to organize the auction. Embassy will pursue contacts at TEIAS to understand this process. Note: Karadeniz asserts that Kartet is not only the sole company with a contract with the ITG MOE and with existing capacity in place but that its contract with Iraq is exclusive. End Note.

16. (SBU) Comment: Kartet and the Karadeniz family were accused, but not convicted, in the 2001 "White Energy Scandal", which could lend support to claims that they might have - at least initially - pursued a "special deal". Sequential corruption investigations have made some bureaucrats reluctant to make decisions and sign documents. This could have contributed to slowing down EMRA's decision. The creation of several independent institutions--the energy and telecoms boards, the banking supervisory agency and the Central Bank--were major reforms to insulate these institutions from direct political influence. Given a pattern of anti-reform elements in the GOT seeking to undermine the independence of these boards, we need to be sensitive to EMRA's independence. EMRA's assertion that many large and reputable Turkish firms are interested in competing for a tender to export electricity to Iraq indicate that Kartet may not be the sole company capable of providing increased electricity. End Comment.

17. (U) Iraq REOs Minimize Considered
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